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# CHAPTER 7 PAYMENT STANDARDS

#### 7.1 CHAPTER OVERVIEW

Payment standards are used to calculate the housing assistance payment (HAP) that the PHA pays to the owner on behalf of the family leasing the unit. Each PHA has latitude in establishing its schedule of payment standard amounts by bedroom size. The range of possible payment standard amounts is based on HUD's published fair market rent (FMR) schedule for the FMR area in which the PHA has jurisdiction. FMRs are based on either the 40<sup>th</sup> or 50<sup>th</sup> percentile of rents charged for standard rental housing in the FMR area. A PHA may set its payment standard amounts from 90 percent to 110 percent of the published FMRs, and may set them higher or lower with HUD approval.

The level at which the payment standard amount is set directly affects the amount of subsidy a family will receive, and the amount of rent paid by program participants.

If the family leases a unit with a gross rent at or below the payment standard for the family, the family's share of the rent will be its TTP. If the rent for the unit is higher than the payment standard, the family's share will be higher than the TTP.

If the payment standard amount is too *low:* 

- Families may need to pay more than they can afford; or
- Families may have a hard time finding acceptable units or units in more desirable areas;
- Housing choices will be narrowed and the PHA's efforts to affirmatively further fair housing will be undermined.

If the payment standard amount is too *high*, owners may be encouraged to ask for higher than reasonable rents.

Payment standard amounts should be high enough to allow families a reasonable selection of modest, decent, safe, and sanitary housing in a range of neighborhoods in the PHA's jurisdiction. To meet that objective and to support families wishing to move to areas with lower concentrations of poor and minority households, a PHA may establish higher payment standard schedules for certain areas within its jurisdiction so that program families can rent units in more desirable areas.

The PHA's procedures for establishing and revising its payment standard schedule must be set forth in its administrative plan.

#### 7.2 ESTABLISHING PAYMENT STANDARD AMOUNTS

A PHA is required to establish payment standard amounts for each unit size in an FMR area. The payment standard amounts may be within several ranges depending on facts about the rental market. Payment standard amounts may be established:

- Within the "basic range", which is between 90 percent to 110 percent of the 40th percentile FMR;
- Between 90 percent and 110 percent of the 50th percentile FMR if the PHA is within a 50th percentile FMR area;
- Between 90 percent and 110 percent of the 50<sup>th</sup> percentile rent if the PHA has obtained HUD approved for "success rate" payment standard amounts; or
- As exception payment standard amounts below 90 percent or above 110 percent of the 40th or 50th percentile FMR with HUD approval.

### Payment Standard Amounts within the Basic Range

Most PHAs will establish payment standard amounts within the basic range; the other options for setting payment standard amounts are made available as tools for PHAs with special market problems.

Within the basic range, the payment standard is set between 90 percent and 110 percent of the 40th percentile FMR. Whenever the FMR increases or decreases, the PHA must ensure that its payment standard amounts remain within the basic range.

#### KEEPING THE PAYMENT STANDARD AMOUNT WITHIN THE BASIC RANGE

In October, a PHA established its payment standard for a two-bedroom unit at the FMR limit, which was \$300. The following October, an increased FMR was published at \$320.

90% of the new FMR = \$288 110% of the new FMR = \$352

#### The PHA could:

- Leave the payment standard (\$300) in place; \$300 is more than 90% and less than 110% of the new FMR.
- Adopt a higher payment standard at any amount up to \$352.
- Adopt a lower payment standard down to \$288.

### Payment Standard Amounts Based on the 50th Percentile FMR: Housing Choice

Payment standards based on the 50th percentile FMR are made available to PHAs in FMR areas where higher payment standards are necessary to increase housing choice throughout a metropolitan area.

50<sup>TH</sup> PERCENTILE FMRS TO INCREASE HOUSING CHOICE

HUD will establish 50<sup>th</sup> percentile FMRs to ensure that low-income families have access to a broad range of housing opportunities throughout the metropolitan area and are free to move to neighborhoods of their choice.

The areas where HUD will establish the higher FMRs are those where there is:

- A concentration of voucher holders; and
- Evidence suggesting that this problem may be due to the distribution of affordable rental units in the area.

To increase housing choice throughout a metropolitan area, HUD will increase FMRs to the 50th percentile in metropolitan areas that meet the following criteria:

The FMR area contains at least 100 census tracts:

70 percent or fewer of the census tracts with at least 10 two bedroom rental units are census tracts in which at least 30 percent of the two bedroom rental units have gross rents at or below the two bedroom FMR set at the 40th percentile rent; and

25 percent or more of the tenant-based rental program participants in the FMR area reside in the five percent of the census tracts within the FMR area that have the largest number of program participants.

In those areas where HUD has published 50th percentile FMRs, a PHA may establish its payment standard amounts between 90 and 110 percent of the 50th percentile FMR. All PHAs must use the published FMR or request an exception payment standard (see below).

A PHA that sets a payment standard amount at more than 100 percent of the 50<sup>th</sup> percentile FMR will be measured under SEMAP to determine its performance in achieving deconcentration.

#### Payment Standard Amounts Based on the 50th Percentile Rent: Success Rate

PHAs not in metropolitan areas with published 50th percentile FMRs may request HUD approval to use the 50th percentile rent if the higher rent levels are needed to ensure that more voucher holders will be successful in finding decent affordable housing.

The term "success rate" refers to the percent of applicants issued vouchers who successfully find and lease a program unit before the voucher expires.

To qualify for "Success Rate" payment standard amounts using the 50th percentile rent, a PHA must have:

- Maintained its payment standard amounts for all unit sizes in the entire PHA jurisdiction at 110 percent of the (40th percentile) FMR for a period of at least six months and up to the time of the PHA request for approval of success rate payment standard amounts; and
- Demonstrate that fewer than 75 percent of applicant voucher holders have successfully leased a program unit during the most recent six months; and
- Have a policy of granting automatic extensions of voucher terms to at least 90 days to
  provide an applicant who has made sustained efforts to locate suitable housing with
  additional search time.

PHAs adopting success rate payment standard amounts will be measured under SEMAP to determine their performance in improving voucher holder success rates using the higher payment standard amounts.

## **Requesting HUD Approval of Exception Payment Standard Amounts**

A PHA may request HUD approval of payment standard amounts higher or lower than the established 40<sup>th</sup> or 50<sup>th</sup> percentile FMR for designated parts of the FMR area (the "exception areas"). The exception payment standard amounts may be for all units in the exception areas, or for all units of a given bedroom size in these areas. Any PHA with jurisdiction in the exception areas may use the HUD-approved exception payment standard amounts without requesting specific HUD approval.

- Requests for exception payment standard amounts from 110 percent to 120 percent of FMR must be supported by the median rent method or the 40<sup>th</sup> or 50<sup>th</sup> percentile method discussed below.
- HUD will only approve exception payment standard amounts if the exception payment standard amounts are needed to help families find housing outside areas of high poverty concentrations, or because voucher holders have trouble finding housing to lease under the program within the voucher term.
- The total population of all HUD-approved exception areas may not include more than 50 percent of the population of the FMR area.

# Requesting HUD Approval of Exception Payment Standard Amounts over 120 percent of the FMR

A PHA may request HUD approval to adopt exception payment standard amounts above 120 percent of the published FMRs for the same area but not until at least six months from the date of HUD's approval of a 120 percent exception payment standard.

- The exceptions must be necessary to prevent financial hardship for families.
- The Assistant Secretary for Public and Indian Housing must approve requests for exception payment standard amounts over 120 percent of the published FMR.

# METHODS FOR DETERMINING EXCEPTION PAYMENT STANDARD AMOUNTS MEDIAN RENT METHOD

# <u>Median Exception Area Gross Rent</u> = Exception Payment Standard Percentage Median FMR Area Gross Rent

The Anytown PHA is concerned that voucher families are concentrated in some of the city's poorest neighborhoods. Even with voucher assistance, they cannot afford other areas without paying more than 40 percent of their monthly adjusted income for rent, the maximum initial rent burden allowed under the housing choice voucher program. The PHA is requesting HUD approval for exception payment standards for two-BR, three-BR, and four-BR units in the Broadview area of the city, which has decent housing, good schools, and a low concentration of poor and minority families.

Using Census data, the PHA determines that the median rents for the 2-BR units in the three census tracts that comprise Broadview are \$897, \$872, and \$901, with an \$890 overall median. The median rent for the Anytown MSA is \$781.

\$890 = 1.14 OR 114%

With HUD approval, Anytown PHA's payment standards for each unit size in the Broadview exception payment standard area may be up to 114 percent of the Anytown Area FMR.

Anytown's FMRs are set at the 40<sup>th</sup> percentile of area rents. A PHA using an approved 50<sup>th</sup> percentile FMR could make a similar request for exceptions above the 50<sup>th</sup> percentile FMR if local market data supported the request.

# METHODS FOR DETERMINING EXCEPTION PAYMENT STANDARD AMOUNTS $40^{\rm TH}$ or $50^{\rm TH}$ Percentile Rent Method

The Central State PHA, responding to complaints from voucher holders who need large units about their difficulty finding affordable housing, is requesting HUD approval for exception payment standards for four and five bedroom units throughout its jurisdiction. Census and other available data for the area, which includes only aggregate rent figures for units of all sizes, do not support a request under the median rent method.

Under the  $40^{th}$  or  $50^{th}$  percentile rent method, Central State must support its request for an exception with "statistically representative" rental housing survey data demonstrating that, for four- and five-bedroom units in its jurisdiction, the  $40^{th}$  or  $50^{th}$  percentile rent levels are greater than the HUD established FMRs. Suggestions for obtaining this data can be found in two HUD publications:

- Random Digit Dialing Surveys for large PHAs, and
- Rental Housing Surveys for smaller PHAs.

The PHA is required to conduct an RDD survey for only the portion of the FMR area for its jurisdiction.

The Central State PHA is disputing the published 40<sup>th</sup> percentile FMRs; if the PHA were in a 50<sup>th</sup> percentile FMR area, it could use the same approach to challenge published 50<sup>th</sup> percentile FMRs.

### **Establishing the Payment Standard Schedule**

A PHA initially establishes the payment standard amounts on the payment standard schedule at 90 percent to 110 percent of the published FMR. Like the FMR, the payment standard schedule is established by bedroom size category. The payment standard schedule applies to all voucher units administered by the PHA regardless of the source of funding (e.g., formula allocation, Welfare to Work, or vouchers targeted to specific groups of recipients) or the date on which the vouchers were awarded by HUD.

The PHA may establish one or more separate payment standard amounts within the basic range for designated parts of an FMR area. This may be appropriate where a PHA has determined that its general payment standards are too low to allow families seeking housing in areas with low concentrations of poverty and minority families to lease in these areas.

#### 7.3 REVISING THE PAYMENT STANDARD

Prior to the effective date of any new FMRs, the PHA must review its payment standard schedule and amend it as needed to ensure that the payment standards remain within the basic range (90 percent to 110 percent of the new FMR). If the FMR increases, the PHA must be sure that the payment standards for each unit size are at least 90 percent of the new FMR. Similarly, if the FMR decreases, the PHA must be sure that the payment standards are not more than 110 percent of the new FMR.

PHAs will likely increase payment standards as FMRs increase, to help voucher holders find units and current participants to continue to afford the units they have selected. However, the PHA is not *required* to increase payment standards when FMRs increase so long as the payment standards is from 90 percent to 110 percent of the new FMR.

### **Annual Review of Payment Standard Amounts**

At least annually, generally prior to the preparation of its housing choice voucher program budget, the PHA should review its payment standards to determine whether adjustments are needed for some or all unit sizes. In reviewing the adequacy of its payment standard amounts, the PHA should consider the following:

- Assisted Families' Rent Burdens: The PHA should review the percentage of income voucher families use to pay rent to determine the extent to which rent burdens exceed 30 percent of income due to the fact that gross rent levels are above the PHA's payment standard amounts.
- Availability of Suitable Vacant Units with Rents Below the Payment Standard Amounts: The
  PHA should review its rent reasonableness data, vacancy rate data, and other relevant
  information to determine whether there is an ample supply of vacant units with rents below
  the payment standard amounts, particularly in areas with low concentrations of poor and
  minority families.

- Size and Quality of Units Selected: The PHA should review the size and quality of units selected by assisted families before concluding that there is a need for a change in the payment standard amounts. Payment standard amount increases should be made only when they are needed to reach units of adequate size and quality in the mid-range of the market.
- *Time to Locate Housing:* The PHA should review the average time required for voucher holders to find units. If the PHA determines that the amount of time required is excessive (i.e. 90 days or more), an increase in the payment standard amount may be needed.
- Vouchers Expired without Leasing: The PHA should also review the number of voucher holders whose vouchers expire without their having leased a unit. While some voucher dropout is to be expected, a substantial number of families unable to lease units with assistance under the housing choice voucher program suggests that payment standard amount may be too low.
- Large Numbers of Families Moving Out of the PHA's Jurisdiction: The PHA should review the number of families exercising the portability option to lease in other jurisdictions. Again, while some exercise of portability is to be expected, and may in fact indicate that the PHA is meeting its objectives in expanding housing opportunities for participating families, an excessively high number of families moving out may indicate that the PHA's payment standard amounts are too low.

SEMAP Indicator 7, Expanding Housing Opportunities, further requires a PHA to identify and provide information to voucher holders about housing opportunities outside areas of poverty and minority concentration in their jurisdiction. The PHA is required to look at difficulties experienced by voucher holders in finding housing in these areas, and, if appropriate, to seek HUD approval of exception payment standards for these areas.

### **Lowering the Payment Standard Amount**

The PHA's analysis may indicate that the payment standard amount is too high, in which case the PHA should lower its payment standard to some appropriate amount within the basic range. The lower payment standard amount will not apply to families who have already leased units under the higher standard until they move to a new unit or have a change in their family size or composition, or at the second annual reexamination after the PHA lowers its payment standard.

#### **File Documentation**

The PHA should retain documentation of its review of its payment standard schedule to support its determination to change or not to change the payment standard amounts on the payment standard schedule.

### 7.4 APPLYING THE PAYMENT STANDARD

The payment standard is used to calculate the monthly housing assistance payment for a family under the housing choice voucher program. The HAP is arrived at by taking the *lower* of the:

- Payment standard minus the TTP or
- Gross rent for the unit minus the TTP.

Under the housing choice voucher program, if the gross rent for the unit is lower than the payment standard, the family will pay the full TTP. If the gross rent for the unit is higher than the payment standard, the family will pay the TTP plus the amount by which the gross rent exceeds the payment standard.

If during the term of the HAP contract the owner *lowers* the rent for a unit, the HAP will be recalculated using the lower of the initial payment standard or the lower gross rent for the unit.

#### **Payment Standard Amount for a Family**

The payment standard amount for a family is the *lower* of:

- Payment standard amount for the family unit size, or
- Payment standard amount for the size of the unit leased by the family.

If the unit is located in an exception area, the PHA must use the appropriate payment standard amount for the exception area.

#### When the Payment Standard Increases

The payment standard in place on the effective date of the HAP contract remains in place for the duration of the contract term unless the PHA increases or decreases its payment standard. If a payment standard is increased, the higher payment standard is first used in calculating the HAP at the time of the family's regular (annual) reexamination. Families requiring or requesting interim reexaminations will *not* have their HAP payments calculated using the higher payment standard until their next annual reexamination.

#### When the Payment Standard Decreases

If the PHA lowers its payment standards, the payment standard in effect on the effective date of the HAP contract will remain in effect until the family moves to another unit, has a change in its family size or composition, or until the second annual reexamination after the PHA decreases its payment standard.

Decreases in the applicable payment standard due to changes in family size or composition are effective as of the next regular (annual) reexamination following the change. At that time, the new family size will be used to determine the payment standard.

#### **Higher Payment Standard Amount as a Reasonable Accommodation**

Although the housing choice voucher program does not generally allow unit-by-unit exceptions, a PHA may establish a higher payment standard amount within the basic range as a reasonable accommodation for a family with a family member with disabilities.

# ESTABLISHING A HIGHER PAYMENT STANDARD AMOUNT AS A REASONABLE ACCOMMODATION

The Williams family has five children and requires a four-bedroom unit. Mrs. Williams is in a wheelchair and cannot go up stairs.

The family has located a modest 4-bedroom ranch house on the outskirts of Midtown that would meet their needs, but the rent is higher than the Midtown PHA's four-bedroom payment standard. The higher rent would require the Williams to pay more than 40 percent of their income for rent, so they cannot lease the unit without a higher payment standard.

The Midtown Housing Authority (MHA) can provide the Williams with an exception payment standard to enable the family to lease the unit if MHA determines the rent to be reasonable.

#### 7.5 RELATED SEMAP INDICATORS

SEMAP Indicator 8 measures the PHA's compliance in setting its payment standards within the basic range, or other amount approved by HUD:

The PHA's voucher program payment schedule contains payment standards which do not exceed 110 percent of the current applicable published FMR and which are not less than 90 percent of the current applicable published FMR (unless a higher or lower payment standard amount is approved by HUD).

SEMAP Indicator 7 requires the PHA to analyze difficulties experienced by voucher holders finding housing in areas of low poverty and minority concentration and, if appropriate, seek approval from HUD for exception payment standards for these areas.

A new SEMAP Indicator applies only to PHAs that have received approval to establish success rate payment standard amounts. The indicator measures whether voucher holders have been more successful leasing units than before the success rate payment standard amounts were adopted. To earn the five points available through this indicator, the PHA must document improvement using one of two measures:

- More than 75 percent of applicant families issued vouchers were able to lease successfully;
   or
- The percent of successful applicant families is at least five percentage points higher than when the success rate payment standard was established, *and* the PHA's voucher utilization for the fiscal year is at 95% of units leased or 95% of funds expended.

This new SEMAP indicator will apply in the second full PHA fiscal year that follows the date of HUD approval of success rate payment standard amounts.

Submission of data under the SEMAP Deconcentration bonus is mandatory for a PHA using a payment standard amount that exceeds 100 percent of the 50<sup>th</sup> percentile FMR when HUD has published 50<sup>th</sup> percentile FMRs to provide a broad range of housing opportunities throughout a metropolitan area. The submission becomes mandatory starting with the second full PHA fiscal year following initial use of the payment standard amount above the 50<sup>th</sup> percentile FMR. Submission of deconcentration data for the bonus indicator is optional for other PHAs.

The Deconcentration bonus measures the percent of voucher families with children who have moved to low poverty census tracts. Success under the indicator is measured one of three ways:

- Half or more of all voucher families with children in the PHA's jurisdiction reside in low poverty census tracts; or
- The percent of voucher families with children moving to low-poverty census tracts within the PHA's jurisdiction in the fiscal year is at least 2 percentage points higher than those who reside in those areas at the end of the year; or
- The percent of voucher families with children moving to low-poverty census tracts within the PHA's jurisdiction during the last two PHA fiscal years is at least 2 percentage points higher than the percentage of those families who lived there at the end of the last year.